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Kentucky Public Employees' Deferred Compensation Authority

Summary of Kentucky's Program
And
Benefits Comparison on both a National and Border States Basis

As Prepared for
The Blue Ribbon Commission on
Public Employee Retirement Systems
Work Group #2

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Preface

The purpose of this report, as prepared by the staff of the Kentucky Public Employees' Deferred Compensation Authority (Authority), is twofold. First, the report is intended to summarize the Kentucky deferred compensation program. Second, the report attempts to benchmark the Kentucky program to other state deferred compensation programs on both a national and surrounding states basis.

To assist in making the actual benefits and services comparisons on both a national and border states basis, the *2006 Biennial State and Local Government Defined Contribution Plan Survey* (survey) published by the National Association of Government Defined Contribution Administrator, Inc. (NAGDCA) was used as the primary resource.

The NAGDCA survey identified several types of state defined contribution retirement plans currently being administered. These plans include: 457, 401(k), 401(a) and 403(b).

The 457 Plan is the most common plan offered through state government programs. This is as expected since 457 Plans were established specifically for the public sector. The next most popular plan is the 401(k) Plan which is prevalent throughout the private sector but is in limited use in the public sector due to changes in federal regulations some years ago. 401(a) Plans are also being used by some state programs for purposes of receipt of employer matching contributions from 457 Plans. Another common state defined contribution plan is the 403(b) which is available to education employees.

For comparative purposes, this report will focus on 457 and 401(k) Plans both of which are available to eligible employees of the Commonwealth.

Including Kentucky, a total of 35 state 457 Plans and 11 state 401(k) Plans responded to this survey. Although the number of 401(k) respondents in comparison to the 457 Plan respondents appears low, it must be pointed out only 12 states actually administer a 401(k) Plan while all states administer a 457 Plan. Section 457 of the Internal Revenue Code (IRC) provides for the creation of pre-tax defined contribution plans exclusively for public sector employers. IRC Section 401(k) made available to public employers through May 6, 1986, the opportunity to establish a 401(k) Plan. Public employers after May 6, 1986, are prohibited from implementing a 401(k) Plan; however, those in existence on May 6, 1986 were grandfathered into ongoing existence. This is the reason why there are so few state 401(k) Plans.

While the vast majority of the comparative analysis is 2005 data, Authority staff has at times used more current information in its summary of the Kentucky program and in making some specific comments. However, the 2005 data reported to NAGDCA by Kentucky for the survey has <u>not</u> been altered.

Introduction

Summary
of
Kentucky's Program

Background:

The Kentucky Public Employees' Deferred Compensation System (System) was created by State Statute (KRS 18A.230-18A.275) in 1974 when the 457 Plan was established. Deferrals into the 457 Plan began in 1975. The General Assembly subsequently established the 401(k) Plan in 1985 and deferrals commenced in 1986.

Pursuant to Executive Order No. 94-1235 the System was renamed the Kentucky Public Employees' Deferred Compensation Authority (Authority) and elevated to authority status. This Order also attached the Authority to the Personnel Cabinet for administrative purposes only. In addition, the Order modified the composition of the Board of Trustees (Board). The Board is now composed of 7 members and consists of the following:

Secretary of Finance and Administration Cabinet, Ex Officio
Secretary of Personnel Cabinet, Ex Officio
State Controller, Ex Officio
Four at large members appointed by the Governor

- One must have 5 years investment or banking experience
- One must represent non-state employees
- Serve 4 year terms

Defined Contribution vs. Defined Benefit Retirement Plans:

The Authority administers defined contribution retirement plans for the Commonwealth. In contrast, the Kentucky Retirement Systems (KRS) and Kentucky Teachers' Retirement Systems (KTRS) administer defined benefit plans for the Commonwealth.

Defined benefit plans compute participant benefits based upon a specific (defined) formula. In a defined benefit plan the participant will not out live the stream of benefit payments. Defined contribution plans are not designed to apply such a formula. Defined contribution plans are implemented with the express purpose of establishing a participant retirement investment account to accumulate assets. There is no accrual guarantee as provided for with a defined benefit plan.

In the private sector the trend for some time has been to terminate defined benefit plans and establish defined contribution plans as the replacement. In other words, defined contribution plans are becoming the primary retirement plan vehicle for corporate America. As reported by the *Washington Post*, January 6, 2006, more than 82,000 traditional defined benefit plans have either been frozen or eliminated in the past 20 years. These defined benefit plans have been replaced by defined contribution plans because they are expected to be less costly to employers and easier to administer. Corporate giants such as IBM have already taken this type of action. This trend is also beginning to filter into the public sector as unfunded liabilities continue to escalate and annual contribution requirements grow. States such as Alaska, Indiana, Ohio, Oregon, Washington and Wisconsin have reported a movement away from defined benefit as their primary retirement plan. Thus, Kentucky is not unique in its pursuit of funding the high cost of providing retirement benefits for employees.

Funding:

When the Authority was created the General Assembly did not authorize any General Fund dollars to pay for the administration of these programs. Therefore, the Authority is self-supporting by statute and must generate its own revenue for operating purposes.

The Authority has maintained a strong financial position since its creation. There are no funding issues within the Authority. This means the Authority does not have an unfunded liability. In fact, the plans administered by the Authority do not lend themselves to the potential for the accrual of unfunded liabilities. This is a contributing factor as why defined contribution retirement plans have gained in popularity.

Revenue and Expenditures:

The Authority generates it revenue through 2 primary sources which are:

1) Asset fees and
2) 12b-1 fees and expense reimbursements

Asset fees are the annual record keeping and administrative fees assessed to each participant's account(s). 12b-1 fees and expense reimbursements are fees paid by some mutual fund companies to the Authority to offset administrative expenses such as record keeping and marketing. Not all mutual fund companies grant the Authority 12b-1 fees or expense reimbursements. For instance, Vanguard does not pay any amount to the Authority to help defray the cost of plan administration.

It should also be noted the Authority Board is very conscious of participant fees. The Board authorized participant fee reductions in 7 of the past 11 fiscal years. These fee reductions now equate to approximately $3.3 million in participant savings on a recurring annual basis. Kentucky is now actively studying the use of funds with lower cost share classes to further reduce the average fund expense ratio and lower participant expense. This study should be complete by year end and a decision on new lower cost funds made at that time.

The approximate annual cost to participants in the Kentucky deferred compensation program is as follows:

average asset fee	0.27%
average fund expense ratio	0.50%
total average participant fee	0.77%

Sixty percent of respondents reported assessing participants an asset fee just as Kentucky does. Forty-one percent of the survey respondents indicated they do not cap the participant asset fee. Kentucky, however, caps the mutual funds asset fee at $225 annually. There is no cap on the asset fee in the Fixed Contract Fund (stable value fund) since it is factored into the quarterly crediting rate. Flat fees and transaction fees were reported being assessed by some state programs. Kentucky does not assess either of these fees.

For the fiscal year ended June 30, 2006, the Authority generated revenue of approximately $5.9 million and expenditures of approximately $5.2 million. In-house administrative costs represented approximately $1.5 million of total expenditures. As of June 30, 2006 the Authority had approximately 67,000 participants. NAGDCA considers the Kentucky program to be among its largest members.

The Authority's cost of administration is relatively low and compares favorably with the other state deferred compensation plans on both a national and bordering states basis (even though many of these state programs only administer 1 plan). It is typically more costly to administer multiple plans which Kentucky does.

The Authority's average administrative cost on a per capita basis is also very competitive with the Kentucky Retirement Systems (KRS) and Kentucky Teachers' Retirement System (KTRS). The average annual per participant costs are compared below:

Kentucky Public Employees' Deferred Compensation Authority	$ 80
Kentucky Retirement Systems	85
Kentucky Teachers' Retirement System	102

Although the Authority administers a much smaller state sponsored retirement program than either KRS or KTRS its administrative cost per participant is lower. One would have expected economies of scale to make the Authority's program more costly per participant to administer than the much larger defined benefit plans. In a prior communication and Blue Ribbon Commission presentation, it was reported the administrative costs of defined contribution plans were significantly higher than defined benefit plans. This is not the case when the Authority's administrative costs are compared to the Commonwealth's 2 largest defined benefit retirement plans. The Authority's Board and staff are continuously seeking ways to most efficiently administer the Kentucky deferred compensation program.

<u>Staffing:</u>

The Board has employed an Executive Director to work at its pleasure to manage the administration of the Authority. The Authority staff currently consists of 23 full-time and 2 part-time employees. There are also several vacant full-time positions to be filled. The structure of the Authority includes 3 branches and the Executive Director's office. The 3 branches are as follows:

-Investments and Records
-Payout Counseling
-Participant Service

(See attached organization chart at the end of the Introduction.)

Very few other state programs offer participants the level of ‘personal’ service available to Kentucky’s participants. This distinguishes the Kentucky program from the majority of state programs on both a national and border states basis. We believe this affords Kentucky participants tremendous advantages in the receipt of administrative services. These personal services include but are not limited to payout counseling, catch-up assistance, loan processing, etc.

Plans and Optional Features:

The Authority’s program has been at the forefront of creative and innovative plan design for a number of years within the governmental defined contribution plans community.

The Authority is 1 of only 12 states which offer participants the choice of both an IRC Section 457(b) and 401(k) Plan. Participants may elect to participate in either or both plans, depending upon whether their employer has elected to offer both plans. The overwhelming majority of participating employers offer both plans. The ability to contribute to 2 plans is extremely advantageous to Kentucky’s participants. This 2 plan structure enables participants the opportunity to contribute up to $15,500 to each plan or $31,000 annually on a tax-deferred basis. With the catch-up provisions, participants age 50 and over may contribute an additional $5,000 to each plan. This increases the annual contribution limit for these participants to $41,000. These amounts do not take into account the special 3-year catch-up under the 457 Plan.

The Authority is committed to becoming its participants one-stop-shop for their voluntary supplemental retirement needs. Over the past several years the Authority has pursued this goal which has thus far culminated in the implementation of the Roth 401(k) feature July 1, 2006 and the introduction of Deemed IRAs (both Traditional and Roth) effective July 1, 2007. It is the intent of the Authority to develop a 403(b) Plan for education employees by 2009. To our knowledge only 1 other state (Utah) currently offers Deemed IRAs to its participants. And only 1 other state has implemented the Roth 401(k) feature (North Carolina).

Based upon the information currently available from NAGDCA, Kentucky is the only state currently offering a 457 Plan, 401(k) Plan, Roth 401(k) feature and Deemed IRAs (both Traditional and Roth). This position, we believe, gives the Kentucky deferred compensation program a substantial benefits advantage over all other state programs.

Participating Employers:

Currently, more than 750 public employers are participating in the Authority’s program. Kentucky state government, public schools and public universities are all participating employers by state statute. Local governments may elect to become participating employers by executing a Joinder Agreement.

Kentucky differs from the vast majority of state deferred compensation programs in that other states do not typically offer local political subdivisions, schools and universities the opportunity to participate in their plans. Other states may offer one of these jurisdictions the opportunity to participate but not both. Enabling other government employers to participate increases dramatically the administrative processes required to maintain these retirement plans. However, if Kentucky did not offer the Authority program to other governmental entities, the smaller ones may have found the cost to establish a deferred compensation program to be prohibitive. Having the ability to participate in the Kentucky deferred compensation program enables those government entities the opportunity to significantly enhance their total benefits package for employees. Further, the cost to the employer is only the relatively small amount of time it takes to process the payroll withholdings. The Authority does the remainder of the work!

<u>Services and Benefits Provided by Authority Staff:</u>

Authority staff provides a multitude of services to the participating employers and their participants. Kentucky may be the only state program to provide the vast array of services it offers to participants on an in-house basis. This means participants can receive personalized face-to-face, as well as, telephone service throughout every state government business day. The Authority's business hours were even extended a number of years ago to better serve our participants in different time zones. These services have been summarized by branch and are as follows:

-Investments and Records Branch

1) Oversees the investment of **all** participant deferrals which includes reconciling daily deposits in order to allow deferrals to be invested in a timely manner.
   Average number of investments per month – 12 (144/yr)
   Average amount invested per month - $11.5 million ($138 million/yr)

2) Works as the liaison with payroll personnel from our various employers to insure a good working relationship with all employers.

3) Assists participants in completing the rollover process, coordinates the transfer from the current provider, and invests rollover funds when received.
   Average number of rollover checks per month – 65 (780/yr)
   Average amount of rollovers each month – $1.4 million ($16.8 million/yr)

4) Assists participants in completing the 457 plan to plan transfer process, coordinates the transfer from the current provider and invests funds when received.

5) Processes all participant loans, explaining loan procedures and Internal Revenue Service (IRS) regulations to participants, preparing forms, approving loans and presents loans to NRS for payment. Oversees investment of loan repayments received daily.
   Average number of loans processed per month – 225 (2,700/yr)
   Average loan volume each month – $1 million ($12 million/yr)

6) Works with Authority's external auditors to insure compliance with IRS codes and acceptable accounting practices.

7) Oversees the imaging of all Authority documents and incoming mail into the imaging system.
   Average number of documents imaged per month – 20,000 (240,000/yr)

-Payout Counseling Branch

1) Processes periodic and non-periodic payouts for plan participants
   Average number of payouts per year – 6,900

2) Processes financial hardship/unforeseeable emergency withdrawals for plan participants
   Average number hardship/unforeseeable emergency withdrawals processed per year – 370

3) Processes requests to purchase service credit in the various state retirement plans
   Average number of transfers per year – 1,500
   Amount transferred to <u>all</u> retirement systems to date – $246 million

4) Provides participants general information regarding tax consequences for withdrawals

5) Provides participant and beneficiary explanations of the various payout options offered by the Authority

6) Advises participants of IRS regulations that apply to payouts (examples include required minimum distributions, tax withholdings, benefit events, etc.)

-Participant Service Branch

1) Offers a variety of customer services to all participants including:
   - Assistance in making exchanges, allocation changes, increase, decrease and ceasing deferrals
   - Reset password for the website *(average 2,400 calls/yr)*
   - Accept and approve beneficiary forms and update participant file *(average 19,200/yr)*
   - Explain differences between the 401(k) and 457 Plans
   - Provide information regarding maximum deferral limits
   - Answer statement questions
   - Provide information regarding fund performance, fund categories, ticker symbols, etc.
   - Update address, telephone numbers and last name on participant file
   - Provide balance information and generate balance verification letters when requested

2) Enters into the record keeping system and audits weekly business such as enrollments and requested changes using the information provided on the Participation Agreements
   Average 10,000 forms per month – 120,000/yr

3) Mails copies of signed and processed Participation Agreements to payroll clerks
Average 400 per month – 4,800/yr

4) Mails weekly billings to payroll clerks
Average 8,000 per month – 96,000/yr

5) Returns approved copy of Participation Agreement to the participant
Average 8,000 per month – 96,000/yr

6) Mail self-bills for loan repayments weekly
Average 6,000 per month – 72,000/yr

7) Mail new participant letters weekly
Average 10,400/yr

8) Updates and prints forms used by all branches in deferred comp

9) Oversees the update of web information and web enhancements

Kentucky Public Employees' Deferred Compensation Authority
April 2007

- **Executive Director**
  Robert C. Brown, CRA, CRC
  - Staff Assistant (Part-time)
    Christopher J. Helvey
  - Executive Staff Advisor (Part-time)
    Connie B. Smith
  - Systems Consultant IT
    Neal W. Lanham
  - Executive Secretary II
    Pat A. Goodlett
  - Administrative Specialist III
    Claudia Morton
  - Benefits Attorney
    Vacant
  - Accountant
    Vacant
  - Investments & Records Br.
    Def Comp. Mgr
    Sandra L. Whitaker
    - Def. Comp. Consultant
      Amy L. Mosby
    - Def. Comp. Consultant
      Barbara A. Hedrick
    - Def. Comp. Counselor II
      Jody M. Overturf
    - Administrative Specialist I
      Susan Pardi
    - Administrative Specialist III
      Diane Collins
    - Def. Comp. Consultant
      Leanne H. Barger
    - Administrative Specialist I
      Amanda Hansel
  - Payout Counseling Br.
    Def Comp. Mgr.
    Eric L. Simpson
    - Def. Comp. Consultant
      Julie C. Gordon
    - Def. Comp Counselor II
      Kathryn M. Warfield
    - Def. Comp. Po. Cn.
      Vacant
    - Administrative Specialist II
      Kelley Peach
    - Def. Comp. Po. Cn.
      April E. Smyth
    - Def. Comp. Counselor II
      Julia A. Holbrook
  - Participant Services Br.
    Def Comp. Mgr.
    Jean E. Henning
    - Administrative Specialist I
      Vernida S. Clary
    - Administrative Specialist I
      Carrie E. Howard
    - Def. Comp. Po. Cn.
      Donna S. Towles
    - Admin. Specialist II
      Floyd Boler
    - Office Support Assistant I
      Kathy Stroop

Benefits Comparison

On a National & Border States Basis

457 & 401(k)
State Plan Assets

Plan Assets and Type of Plans

Entity	457 Plan	401(k) Plan	Total Assets
Alaska	X		$473,000,000.00
Alaska			$1,997,000,000.00
Arizona	X		$625,338,389.00
California Savings Plus Program	X		$3,586,272,876.00
California Savings Plus Program		X	$2,242,879,332.00
CalPERS	X		$459,551,157.00
Colorado	X		$3,080,000,000.00
Delaware	X		$253,084,890.18
Florida	X		$1,989,820,220.10
Georgia		X	$243,367,254.00
Georgia	X		$553,334,318.00
Idaho	X		$198,486,329.24
Idaho (PERSI)		X	$203,000,000.00
Illinois	X		$2,536,828,813.00
Indiana	X		$700,855,982.00
Kansas	X		$419,000,000.00
Kentucky	X		$535,112,974.36
Kentucky		X	$713,483,378.11
Maine	X		$3,000,000.00
Maryland		X	$794,862,380.00
Maryland Teachers and State Employees	X		$1,132,171,996.00
Michigan	X		$1,922,336,462.00
Montana	X		$250,865,146.00
Nevada	X		$310,029,753.00
New Jersey	X		$1,609,885,621.66
New York State	X		$7,983,027,486.00
North Carolina		X	$3,326,973,792.00
Ohio	X		$6,115,809,858.00
Oklahoma	X		$381,851,984.00
Oregon	X		$839,000,000.00
Pennsylvania	X		$1,493,630,715.00
South Carolina	X		$828,328,264.00
South Carolina		X	$1,349,128,295.01
South Dakota	X		$100,991,485.39
State of Michigan		X	$2,318,235,906.00
Tennessee	X		$144,434,500.00
Tennessee		X	$774,568,833.00
Texas	X		$312,369,479.00
Texas		X	$920,661,999.00
Utah	X		$227,630,883.00
Utah		X	$2,060,859,516.00
Vermont	X		$205,600,000.00
Virginia	X		$802,185,420.00
Washington	X		$2,086,160,089.00
West Virginia	X		$64,261,725.00
Wisconsin	X		$1,768,157,849.00
Wyoming	X		$239,596,259.00
	35	**11**	**$61,177,031,609.05**

Plan Assets

Of the 35 reporting states, Kentucky ranks 19th in terms of total program assets with approximately $1.2 billion as of June 30, 2005.

The largest state deferred compensation programs in terms of total assets are as follows:

New York	$8.00 billion
California	6.30
Ohio*	6.10
Michigan	4.20

**Bordering state*

Eight states also offer a 401(a) Plan for purposes of receiving employer 457 Plan matching contributions. The 401(a) Plan is used for this purpose to enable the 457 Plan participant to defer up to the annual deferral limit. Employer contributions to the 457 Plan reduce dollar for dollar the annual contribution limit of the participant. Kentucky does not currently have a 401(a) Plan since employer matching contributions may be made to the 401(k) Plan which is not subject to the 457 plan offset requirement.

Border States Statistical Comparison

States Bordering Kentucky include:

Illinois	Tennessee
Indiana	Virginia
Missouri	West Virginia
Ohio	

Plans offered:

State	457 Plan	401(k) Plan	401(a) Plan
Illinois	X		
Indiana	X		
Missouri	X		
Ohio	X		X
Tennessee	X	X	
Virginia	X		X
West Virginia	X		
Kentucky	X	X	

Observation: Bordering states offer 3 types of supplemental retirement plans. All bordering states offer the 457 Plan. Two states (Ohio and Virginia) also offer a 401(a) Plan which is generally used to accept an employer matching contribution to a 457 Plan. Kentucky and Tennessee offer a 401(k) Plan in addition to the 457 Plan. 401(k) Plans offer participants more benefits and flexibility than the 401(a) Plans. Therefore, from a competitiveness standpoint, Kentucky and Tennessee's overall programs are superior to the other bordering states.

Asset size: (in million)

State	457 Plan	401(k) Plan	401(a) Plan	Total
Illinois	$2,537			$2,537
Indiana	701			701
Missouri*				
Ohio	6,116		118	6,234
Tennessee	114	775		889
Virginia	802		303	1,105
West Virginia	64			64
Kentucky	535	714		1,249

**Did not respond*

Observation: In terms of border state asset size, Kentucky is surpassed by only Ohio and Illinois. Ohio is one of the largest state defined contribution programs in the nation. The Illinois defined contribution program is approximately twice

Kentucky's size. Although Kentucky is not the largest program in terms of assets, it is larger than 4 of the 6 reporting border states. From a comparability viewpoint the Kentucky program's size compares quite favorably when considering all of the border states.

<u>Number of participants:</u>

State	Eligible	Active	Inactive	Total
Illinois	104,500	36,700	9,400	46,100
Indiana	33,000	18,423	N/A	18,423
Missouri	N/A	N/A	N/A	N/A
Ohio	521,749	136,734	11,021	147,755
Tennessee	N/A	51,415	13,797	65,212
Virginia	123,185	37,096	39,978	77,074
West Virginia	24,000	3,654	N/A	3,654
Kentucky	228,646	48,175	16,716	64,891

Observation: In terms of total participants, Kentucky ranks 4th among the 6 reporting border states. However, Kentucky ranks 3rd in terms of active participants when comparing the participant size of the responding border states. Since Kentucky ranks mid-pack in terms of participants, Kentucky is average in number of participants. Kentucky has the 2nd largest eligible employee base from which to work. Ohio has by far the largest eligibility base.

<u>Eligible Jurisdictions:</u>

	State	Local Government	Public Schools	Public Universities
Illinois	X			X
Indiana	X	X		
Missouri	X			
Ohio	X	X	X	X
Tennessee	X			X
Virginia	X	X		X
West Virginia	X			
Kentucky	X	X	X	X

Observation: Of the states bordering Kentucky only Ohio joins Kentucky in offering their deferred compensation program to all eligible governmental jurisdictions within their individual states. We believe this gives Ohio and Kentucky a competitive advantage over the remaining border states which do not grant their supplemental savings program to other governmental jurisdictions. For instance, other jurisdictions within Ohio and Kentucky do not have to incur the cost of starting a retirement plan. Also, larger plans are typically less expensive on a per participant basis to administer.

Optional Plan Provisions Adopted by State 457 & 401(k) Plans

Optional Plan Provisions Adopted - State 457 Plans

	Hardship withdrawals	Incoming rollovers from non-457 plans (plans subject to 10% early distribution penalty)	In-service rollovers to government's defined benefit plan for service credit purchase	Mandatory cash out of small accounts at separation/termination of employment	In-service cash out of accounts under $5,000 (permitted for 457 plans only)	In-service distributions at age 59 1/2 (permitted for 401(k) plans only)	Honoring of Domestic Relations Orders	Loans	Employer contributions on behalf of participants in this plan	Special three-year catch-up provision authorized in IRC §457(b)(3) (permitted for 457 plans only)	Age 50 and over catch-up deferral limit ($14,000 in 2003; $16,000 in 2004)	Automatic Deferral Increases
Alaska	X		X				X			X	X	
Arizona	X	X	X		X		X	X		X	X	
CA Savings Plus Program	X				X		X	X		X	X	
CalPERS	X	X	X		X		X	X	X	X	X	
Colorado	X	X	X	X			X		X	X	X	
Delaware	X	X	X		X		X		X	X	X	
Florida	X	X	X				X			X	X	
Georgia	X	X	X	X	X		X			X	X	
Idaho	X	X	X		X		X	X		X	X	
Illinois	X	X	X		X		X			X	X	
Indiana	X	X	X		X	X	X			X	X	
Kansas	X	X	X		X		X	X		X	X	
Kentucky	X		X		X			X		X	X	X
Maine	X		X									
MD Teachers & St Emps	X	X	X				X	X	X	X	X	
Michigan	X	X	X	X			X	X	X	X	X	
Montana	X	X	X	X	X		X			X	X	
Nevada	X	X	X		X		X			X	X	
New Jersey	X		X		X		X			X	X	
NY State	X	X	X		X		X	X		X	X	
Ohio	X	X	X		X		X		X	X	X	
Oklahoma	X		X						X	X	X	
Oregon	X	X		X	X		X		X	X	X	
Pennsylvania	X	X	X		X		X			X	X	
SC												
South Dakota	X	X	X		X							
Tennessee	X										X	
Texas	X		X		X		X	X		X	X	
Utah	X	X	X	X			X	X	X	X	X	
Vermont	X	X	X		X		X			X	X	
Virginia	X	X	X		X		X		X	X	X	
Washington	X	X	X		X		X			X	X	
West Virginia	X	X	X		X					X	X	
Wisconsin	X	X	X	X	X		X			X	X	
Wyoming	X	X	X	X	X		X		X	X	X	
	34	26	31	8	25	1	28	11	11	31	32	1

Optional Plan Provisions Adopted – State 457 Plans

Comparability Notes:

Kentucky's 457 Plan is extremely competitive in its offering of optional plan benefits to its participants. Of the 12 optional plan provisions identified in the NAGDCA survey, Kentucky offers 7 of those provisions. Seven is also the average number for all reporting state plans. The average number of optional provisions for the reporting bordering states is 7, as well.

The most frequently utilized optional plan provisions are as follows:

Provision	# of States Using
Hardship Withdrawal	34
Age 50 Catch-up	32
Special 3-year 457 Plan Catch-up	31
In-service Rollovers to Purchase Service Credit	31

Kentucky's 457 Plan includes all 4 of these optional plan features.

Hardships or unforeseen emergency withdrawals are granted from 34 of 35 of the state plans reporting, (including Kentucky). South Carolina is the only reporting state excluding the hardship/unforeseen emergency withdrawal provision.

Incoming rollovers from non-457 Plans are accepted by 26 reporting state plans (excluding Kentucky). Since Kentucky also administers a 401(k) Plan which accepts rollovers there is no need to maintain a rollover account in the 457 Plan which requires separate record keeping for purposes of applying the 10% excise tax in the event of an early distribution. Non-457 Plan rollovers cannot, by federal regulations, be recharacterized as 457 Plan assets. Kentucky does accept transfers from other 457 Plans because separate record keeping for early withdrawal is not necessary. All bordering states reporting except Kentucky and Tennessee offer this provision. It is assumed Tennessee does not have the non-457 Plan rollover in provision because like Kentucky it has a 401(k) Plan to receive non-457 Plan rollovers.

Thirty-one of 35 states allow the transfer of 457 Plan assets to their defined benefit plan to purchase service credit, (including Kentucky). Of the border states only Tennessee does not allow the transfer of 457 Plan assets to purchase service credit from their defined benefit plan.

Only 8 of the 35 reporting states force participants to withdraw small account values upon separation from service, including retirement (Kentucky does not force terminated or retired participants to withdraw their account unless the account value is less than $500 and the account has been inactive for 2 years; however, a small inactive account fee may apply). The Authority believes forcing these participants out of the plan has negative connotations. No border state which responded to the survey has invoked this provision.

Twenty-five of the 35 reporting states (including Kentucky) automatically cash out the account(s) of working who have been inactive (no contributions) for 2 consecutive years and have an account value of less than $500. (Actively working participants are given the opportunity to reinstate active participation before their account is refunded.) Small inactive accounts are costly for the Kentucky program to maintain and forces all other participants to subsidize the continued administration of such account. All border states except Tennessee incorporated this provision into their 457 Plan.

Only 1 plan (Indiana) allows in-service withdrawals from their 457 Plan upon attainment of age 59½. IRS regulations do not provide for these types of withdrawals from 457 Plans. Therefore, we are not certain how Indiana is able to offer this plan provision.

Domestic relations orders are processed from 457 Plans by 28 of the 35 reporting states (excluding Kentucky). IRC Section 414 (p) does not require 457 Plans to honor domestic relations orders. Participants, with few exceptions, are pleased with Kentucky's position on this matter since it enables them to retain these assets for their future retirement. All border states except West Virginia and Tennessee have included this provision.

Loans are offered by 11 of the 35 reporting states 457 Plans (including Kentucky). Participants have endorsed the loan program in Kentucky. As of March 31, 2007 the outstanding loan volume for both the Kentucky 457 and 401(k) Plans was $20.9 million which represents approximately 1.5% of the total plans assets. None of the reporting border states have provided for the loan provision.

Eleven of the 35 reporting states provide an employer matching contribution, (excluding Kentucky). Kentucky, however, does offer through the 401(k) Plan a provision for receipt of employer matching contributions. If matching contributions are allowed in a 457 Plan it reduces the annual contribution limit a participant can make. The employer match in the 401(k) Plan does not impact the participant's annual contribution maximum. Therefore, having the 401(k) Plan match feature is more beneficial for those Kentucky participants who receive an employer match. Although, state employees do not currently receive an employer matching contribution, an increasing number of participating employers in the Kentucky 401(k) Plan are providing a match. Two border states, Ohio and Virginia, provide for an employer match. It is our understanding Indiana has subsequent to the preparation of the NAGDCA survey introduced a match.

None of the reporting states are offering Deemed IRAs (Traditional or Roth) through their 457 Plan (including Kentucky). Kentucky did implement Deemed IRAs in the 401(k) Plan effective July 1, 2007.

No state at the time of the survey (2005 Plan Year) had a provision for automatic enrollment (including Kentucky). Several states have since elected to implement or are seriously considering auto enrollment. Authority staff and the Board continue to evaluate whether or not to present this plan provision to the legislature for its adoption.

None of the reporting states (including Kentucky) have adopted a Roth 401(k) type feature in their 457 Plans. Kentucky did implement the Roth 401(k) feature in the 401(k) Plan effective July 1, 2006.

Of the reporting states only Kentucky has implemented an automatic deferral increase provision. Not all Kentucky employers, however, offer this feature for their employees; although, the state does.

Observation: It is Authority staff's belief the optional provisions of the Kentucky 457 Plan compare most favorably with all other reporting states on both a national and border state basis.

Optional Plan Provisions Adopted - 401(k) Plans

	Hardship withdrawals	Incoming rollovers from non-457 plans (plans subject to 10% early distribution penalty)	In-service rollovers to government's defined benefit plan for service credit purchase	Mandatory cash out of small accounts at separation/termination of employment	In-service distributions at age 59 1/2 (permitted for 401(k) plans only)	Honoring of Domestic Relations Orders	Loans	Employer contributions on behalf of participants in this plan	Deemed IRA	After-tax employee contributions	Special three-year catch-up provision authorized in IRC §457(b)(3) (permitted for 457 plans only)	Age 50 and over catch-up deferral limit ($14,000 in 2003; $16,000 in 2004)	Roth 401(k)	Roth IRA	Automatic Deferral Increases	Other
California Savings Plus Program																
Georgia	X	X	X	X	X	X						X				
Idaho (PERSI)	X	X	X	X		X	X	X				X				
Kentucky	X	X	X		X	X	X	X	X			X	X	X	X	
Maryland	X	X	X		X	X	X	X				X				
North Carolina	X	X	X		X	X	X	X		X		X	X			
South Carolina																
State of Michigan	X	X	X	X		X	X	X			X	X				
Tennessee	X		X		X		X	X				X				X
Texas	X		X		X	X	X					X				
Utah	X	X	X	X	X	X	X	X	X			X				
	9	7	9	4	7	8	8	7	2	1	1	9	2	1	1	1

Optional Plan Provisions Adopted – State 401(k) Plans

Comparability Notes:

Only 12 states currently offer a 401(k) Plan. Eleven of the states, including Kentucky, have responded to the survey. The only border state with a 401(k) Plan is Tennessee; however, Tennessee's 401(k) Plan is not nearly as comprehensive as the Kentucky 401(k) Plan. A review of all the responses indicates Kentucky actually offers more of the optional features identified by the NAGDCA survey than any other state. Kentucky offers 12 of the 16 features surveyed while Utah is next with 10 provisions. The average number of optional provisions included in each state plan is 7.

Hardship withdrawals are optional provisions in 9 of the 11 reporting state plans, (including Kentucky).

Incoming rollovers from non-457 Plans are allowed by 7 of the 11 reporting states (including Kentucky). Participants, theoretically, would not elect to rollover to the 401(k) from a 457 Plan because the 10% early distribution penalty does not apply to 457 Plans. However, it does apply to 401(k) Plans and, therefore, it would not be advantageous to recharacterize the account to a 401(k). Tennessee does not accept incoming rollovers from other qualified plans.

In-service rollovers/transfers to purchase service credit from defined benefit plans are offered by 9 of the 11 reporting states (including Kentucky). Tennessee also included this provision in their plan.

The mandatory cash out of small accounts at time of separation from service is a provision adopted by 4 of the 11 reporting state 401(k) Plan (excluding Kentucky). Kentucky does impose a $6 per month inactive small account fee on accounts which have not received deferrals in the past 6 months and the account value is less than $5,000. Kentucky elected not to enact this mandatory cash out provision because participants would not perceive this as a positive plan feature. The inactive small account fee encourages terminated participants with small account balances to withdraw but allows them the option to remain in the plan. Like Kentucky, Tennessee did not incorporate this optional plan feature.

Seven of the 11 reporting state 401(k) Plans (including Kentucky) provide for in-service withdrawals upon attainment of age 59½ without a defined purpose. Tennessee also allows these withdrawals from their 401(k) Plan.

Domestic relations orders are honored by 8 of the 11 reporting states (including Kentucky) in their 401(k) Plans. Tennessee excluded this plan provision.

Participant loans are available from 8 of the 11 reporting state 401(k) Plans (including Kentucky). Typically loans range from a minimum of $1,000 to a maximum of $50,000. The length of these loans average from 1 to 5 years. These are also the parameters of Kentucky's loan program. Tennessee does allow participant 401(k) Plan loans.

A provision for acceptance of matching employer contributions is included in 7 of the 11 reporting state plans (including Kentucky). Although Kentucky state employees do not receive an employer match some of the participating employers in the Commonwealth's program do match their employees' contributions. We have experienced an increase in interest in offering a match due to comparability of benefits issues with private sector employers. Tennessee also has an employer match provision in their plan.

Only 2 of the 11 reporting state 401(k) Plans offer IRAs to their participants. These states are Kentucky and Utah. Kentucky implemented its IRA program (both Traditional and Roth) effective July 1, 2007. The Authority views this as a major plan enhancement and a substantial advantage over other state 401(k) Plans.

Just 1 of the 11 reporting state 401(k) Plans, North Carolina, offers participants the option to make after-tax as well as pre-tax contributions. Kentucky does offer a Roth 401(k) contribution option which is after-tax but somewhat different from a traditional after-tax 401(k) contribution.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) legislation introduced a catch-up contribution provision for 401(k) and 457 Plan participants age 50 and over. This catch-up provision is also referred to as the 'baby-boomer' catch-up. Nine of the 11 reporting state 401(k) Plans (including Kentucky) adopted this optional provision. The catch-up amount for 2007 is $5,000. Thus, a participant at least age 50 may contribute up to $20,500 into the 401(k) Plan during 2007. Tennessee also adopted this plan provision.

EGTRRA also introduced the Roth 401(k) feature to be effective January 1, 2006 which has been adopted by 2 of the 11 reporting state 401(k) Plans. The 2 states offering Roth 401(k) after-tax contributions are Kentucky and North Carolina. Kentucky implemented the Roth 401(k) on July 1, 2006.

EGTRRA, in addition, created IRC Section 408(q) which enables retirement plans to offer Deemed IRAs (both Traditional and Roth). Of the 11 reporting state 401(k) Plans only Kentucky has elected to implement a Roth IRA option for participants. Kentucky also implemented a Deemed Traditional IRA feature. The Deemed IRAs are an important part of the Authority's goal to be the participants' one-stop-shop for their supplemental retirement needs.

Only Kentucky of the 11 reporting 401(k) state plans offers participants the opportunity for automatic deferral increases. The Automatic Contribution Escalator feature was added for state employees a number of years ago.

Observation: Based upon our analysis of the optional 401(k) Plan provisions offered, Kentucky offers more substantive features than any other reporting state 401(k) Plan. No other state offers participants the opportunity to make both Roth 401(k) and Deemed Traditional and Roth IRA contributions. The Kentucky 401(k) Plan sets the standard for providing optional plan provisions.

Investment Options & Investment Providers used by State 457 & 401(k) Plans

Investment Options - State 457 Plans

	Variable Annuity Funds	Fixed Annuity Product	Mutual Funds	Lifestyle/Asset Allocation Funds	Commingled Trust Fund(s)/Institutional Funds	In-House Variable Fund(s) (stocks, bonds, etc.)	Separate Account(s)	Stable Value Fund	Managed Portfolio	Self-Directed Brokerage Account	Real Estate Inv. Trust (REIT)	Guaranteed Inv.Contract (GIC), Synthetic GIC	Bank or Savings & Loan Deposit Acct. or CD	In-House Interest Bearing Fund(s)	Credit Union Account	Life Insurance
Alaska			X	X				X								
Arizona		X	X	X						X					X	
CA Savings Plus Prg	X		X	X			X	X		X			X			
CalPERS				X	X	X		X		X			X			
Colorado		X	X	X				X	X	X						
Delaware			X	X				X		X						
Florida		X	X	X				X		X			X			
Georgia			X	X				X		X	X					
Idaho		X	X	X						X						X
Illinois			X	X				X								
Indiana			X	X				X	X							
Kansas		X	X	X			X			X						
Kentucky			X	X				X								
Maine			X	X				X								
MD Teachers & St Emps			X					X								
Michigan			X	X	X			X		X						
Montana			X	X				X								
Nevada			X	X				X		X						
New Jersey						X								X		
New York State			X	X				X		X						
Ohio			X	X				X								
Oklahoma			X					X		X			X			
Oregon			X		X			X								
Pennsylvania				X	X			X		X						
South Carolina			X	X				X				X				
South Dakota				X												
Tennessee		X	X		X			X					X			
Texas			X					X		X						
Utah			X	X	X		X	X		X						
Vermont			X	X				X								
Virginia			X		X	X		X		X	X	X				
Washington			X	X	X	X						X				
West Virginia	X	X		X												
Wisconsin			X	X	X			X		X			X			
Wyoming			X	X	X			X								
	2	7	30	28	10	4	3	28	2	18	2	3	6	1	1	1

Investment Options and Investment Providers Offered by State 457 Plans

Comparability Notes:

Reporting state 457 Plans offer a combined total of 16 different types of investment options. Based upon the survey results, the most frequently offered types of investment options are:

Investment Option	% of Plans Using
Mutual Funds	87%
Stable Value Funds	82%
Lifestyle/Asset Allocation Funds	74%
Self-directed Brokerage Accounts	56%

Kentucky offers 3 of the 4 most popular investment options. Kentucky does not offer the self-directed brokerage account. Self-directed brokerage accounts have been considered by the Kentucky Board of Trustees but it was determined usage would be minimal and did not warrant the associated administrative costs. It was felt Kentucky participants would not be willing to individually pay the administrative costs related to the brokerage account.

The remaining investment options were offered by only a few of the plans.

Most state 457 Plan respondents have 16 to 20 investment providers (for example mutual fund companies). Kentucky has a total of 13 different investment providers for both the 457 and 401(k) Plans.

Of the reporting plans, 48% of them offer participants 11 to 20 specific individual investment fund options. In addition, 19% offer more than 50 options and 6% offer less than 10 investment options. Kentucky offers participants 23 different investment options which is fairly close to what the majority of state plans offer to participants. Experts advise there is a direct correlation between the participation rate and the number of investment options being offered by the plan. The participation rate tends to decline as the number of investment options increases.

Looking specifically at a comparison of the bordering states investment options, we found the following:

State	# of Investment Options
Indiana	21 – 30 (range)
Illinois	11 – 20
Missouri	N/A
Ohio	21 – 30
Tennessee	11 – 20
Virginia	11 – 20
West Virginia	41 – 50
Kentucky	21 – 30

Observation: Kentucky's 457 Plan compares favorably with the most common types of investment options and the number of investment providers offered on both a national and border state basis.

Investment Options - 401(k) Plans

	Fixed Annuity Product	Mutual Funds	Lifestyle/Asset Allocation Funds	Cloned Mutual Funds	Commingled Trust Fund(s)/Institutional Funds	Separate Account(s)	Stable Value Fund	Self-Directed Brokerage Account	Real Estate Investment Trust (REIT)	Guaranteed Investment Contract (GIC), Synthetic GIC	Bank or Savings & Loan Deposit Account or CD	Deemed IRA, Roth or 401(k)	Other
California Savings Plus Program													
Georgia		X	X				X	X	X				
Idaho (PERSI)		X		X			X						X
Kentucky		X	X				X					X	
Maryland		X					X						
North Carolina		X					X					X	
South Carolina		X	X				X			X			
State of Michigan		X	X		X		X	X					
Tennessee	X	X			X		X				X		
Texas		X					X	X					
Utah		X	X		X	X	X	X				X	
	1	10	5	1	3	1	10	4	1	1	1	3	1

Investment Options and Investment Providers Offered by State 401(k) Plans

Comparability Notes:

The NAGDCA survey indicates responding state 401(k) Plans use 13 different types of investment options. All 10 of the responding state 401(k) Plans, including Kentucky, use mutual funds and stable value funds as investment options. While not as popular, life style/asset allocation funds were options in 5 of the reporting state 401(k) Plans, including Kentucky. A total of 4 state 401(k) plans reported using self-directed brokerage accounts as an investment option, excluding Kentucky. These brokerage windows have not been extremely popular options among 401(k) Plans in general. Participant usage has been limited where offered. The other 9 investment options were rarely offered by the responding state 401(k) Plans.

401(k) Plan respondents use an average of 8 investment providers (for example, mutual fund companies). Kentucky has a total of 13 different investment providers for both the 457 and 401(k) Plans. This affords the participants considerably more professional investment philosophy diversification. Kentucky offers 401(k) Plan participants the additional option of tax-diversification with the implementation of the Roth 401(k) feature (offered only by Kentucky and North Carolina).

The discussion on individual investment fund options for 457 Plans also applies to the 401(k) Plans.

Observation: The Kentucky 401(k) Plan excels on a national comparison basis when current state 401(k) Plan investment options are analyzed. This is because in addition to offering the most popular investment options, Kentucky also offers a Roth 401(k) option and both a Traditional and Roth IRA. Kentucky is truly a leader in plan design in the governmental plans arena. On a border state comparison basis, besides Kentucky, only Tennessee offers a 401(k). The Kentucky plan also exceeds the investment options offered by the Tennessee plan. The Kentucky program with 23 investment options is at the high end of what consultants consider to be in the acceptable range. The Board and its mutual funds consultant are in the process of addressing this point. It should be noted Kentucky participants appreciate the diversity provided through the multitude of investment options available and the numerous mutual fund companies represented in the Kentucky program.

Administrative Services Provided by 457 & 401(k) Plans

Administrative Services - State 457 Plans

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	Third Party Administrator						Investment Provider				In-House					
	Communication & Enrollment	Record-keeping	Advisory Service for Plan Amendments	Advisory Service for Investment Option Proposals	Advisory Service for Recommending Plan Policies	Advisory Service for Monitoring Investment Performances	Communication & Enrollment	Record-keeping	Advisory Service for Investment Option Proposals	Advisory Service for Monitoring Investment Performances	Communication & Enrollment	Record-keeping	Advisory Service for Plan Amendments	Advisory Service for Investment Option Proposals	Advisory Service for Recommending Plan Policies	Advisory Service for Monitoring Investment Performances
Alaska	X	X			X						X	X	X		X	
Arizona	X	X	X	X	X	X					X					
CA Savings Plus Prg	X	X									X			X	X	X
CalPERS	X	X	X	X	X	X					X		X	X	X	X
Colorado	X	X				X							X			
Delaware	X		X	X	X	X		X			X		X	X	X	X
Florida							X	X			X		X	X	X	X
Georgia	X	X											X	X	X	X
Idaho	X	X	X	X	X	X										
Illinois											X		X		X	
Indiana	X	X			X				X				X	X	X	
Kansas	X	X	X	X		X									X	
Kentucky	X	X								X	X				X	
Maine	X	X									X				X	X
MD Teachers & St Employees	X	X			X						X				X	
Michigan	X	X											X	X	X	X
Montana	X	X									X				X	
Nevada	X	X							X		X					
New Jersey											X	X	X	X	X	X
New York State	X	X			X										X	
Ohio	X		X		X							X	X	X	X	X
Oklahoma	X	X	X		X								X		X	X
Oregon	X	X									X		X		X	
PA	X	X	X		X						X		X	X	X	X
South Carolina	X	X											X			
South Dakota	X	X	X	X	X	X										
Tennessee	X	X	X	X	X	X				X			X	X	X	X
Texas	X	X		X		X				X	X		X	X	X	X
Utah		X								X	X		X	X	X	X
Vermont	X		X	X	X	X						X	X	X	X	X
Virginia	X	X											X	X	X	X
Washington	X	X									X		X	X	X	
West Virginia	X	X	X	X		X							X	X		X
Wisconsin	X	X	X	X	X	X							X	X	X	X
Wyoming		X	X		X						X		X	X	X	X
	30	29	14	11	16	12	1	2	2	4	19	4	24	19	28	18

Administrative Services - State 457 Plans

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	Advisory/ Consulting Services				Outside Counsel				Investment/DC Board Review Committee		
	Advisory Service for Plan Amendments	Advisory Service for Investment Option Proposals	Advisory Service for Recommending Plan Policies	Advisory Service for Monitoring Investment Performances	Advisory Service for Plan Amendments	Advisory Service for Investment Option Proposals	Advisory Service for Recommending Plan Policies	Advisory Service for Monitoring Investment Performances	Advisory Service for Plan Amendments	Advisory Service for Investment Option Proposals	Advisory Service for Monitoring Investment Performances
Alaska	X	X	X	X	X				X		
Arizona											
CA Savings Plus Prg		X		X	X						
CalPERS		X	X	X	X		X				
Colorado		X		X							
Delaware					X	X	X		X	X	X
Florida											
Georgia					X		X				
Idaho											
Illinois		X	X	X				X		X	
Indiana	X	X	X	X	X	X	X		X	X	X
Kansas	X	X	X	X					X	X	
Kentucky		X		X			X	X		X	X
Maine		X	X	X	X				X		X
MD Teachers & St Employees	X	X	X	X	X				X	X	X
Michigan	X	X	X	X							
Montana		X		X	X		X				X
Nevada	X	X	X	X					X	X	
New Jersey									X	X	X
New York State	X	X	X		X		X	X			
Ohio		X	X	X							
Oklahoma	X	X	X		X		X				
Oregon							X			X	X
PA		X		X							
South Carolina	X	X	X	X					X		
South Dakota											
Tennessee											
Texas								X		X	X
Utah	X	X	X	X	X	X	X			X	
Vermont	X	X		X					X	X	X
Virginia					X		X		X	X	
Washington	X	X	X						X	X	X
West Virginia					X				X	X	X
Wisconsin	X				X				X	X	X
Wyoming	X	X	X	X		X			X		X
	14	22	16	19	15	4	11	4	15	16	14

Administrative Services Provided by State 457 Plans

Comparability Notes:

Administrative services are primarily provided by the following: third party administrator, investment provider, in-house staff, advisory/consulting firm, outside counsel or a review committee. We have divided these services into 3 separate categories which are:

Record Keeping
Communications & Enrollment
Advisory Services

Administrative services such as record keeping, communications and enrollment are typically provided by either a third party administrator (for example an insurance company); an investment provider (for example, Fidelity Investments); or in-house by the state plan's staff. The other major administrative service component is advisory services (for example, investment option proposals by an investment consultant). Each type of service is discussed below.

Record Keeping
State 457 Plans rely primarily on third party administrators to provide record keeping services. This statement is supported by the survey results which indicate 28 of the reporting state 457 Plans (83%) use a third party administrator for record keeping. However, 2 of the reporting states indicated record keeping being performed by the investment provider and 4 states perform their own record keeping. Kentucky utilizes a third party administrator to perform its record keeping services. All border states reporting also use a third party administrator for record keeping. Illinois did not respond to this question.

Communications & Enrollment
Third party administrators are the providers of choice for communications and enrollment services. Thirty of the 35 reporting state 457 Plans use a third party administrator exclusively or in part to provide these services, including Kentucky. A total of 19 reporting states, including Kentucky, use in-house staff for at least part of the communications effort. Only 1 state, Florida, uses their investment provider to provide at least a portion of their communications and enrollment services. All border states except Illinois use their third party administrator for communications and enrollment. Illinois handles this through an in-house process. No border state uses a combination of sources.

Advisory Services
Third party administrators are utilized less frequently to provide advisory services for issues such as: plan amendments (14), investment option proposals (11), recommending plan policies (16) and monitoring investment performance (12). These services tend to be provided by consultants and legal counsel. Kentucky, like the majority of state 457 Plans, does not use a third party administrator to provide any of these services. Kentucky uses both outside advisory/consulting and legal counsel for these services. On both a national and border state basis Kentucky is quite competitive and in line with how the majority of state 457 Plans have these advisory services performed.

Observation: From the analysis completed, Kentucky compares quite favorably on both a national and border state basis in terms of the administrative services provided and which entity performs these services for the 457 Plan.

Administrative Services - State 401(k) Plans

	Third Party Administrator						Investment Provider	In-House						Advisory/Consulting Services				Outside Counsel				Investment/DC Review Committee		
	Communication & Enrollment	Record-keeping	Advisory Service for Plan Amendments	Advisory Service for Investment Option Proposals	Advisory Service for Recommending Plan Policies	Advisory Service for Monitoring Investment Performances	Advisory Service for Monitoring Investment Performances	Communication & Enrollment	Record-keeping	Advisory Service for Plan Amendments	Advisory Service for Investment Option Proposals	Advisory Service for Recommending Plan Policies	Advisory Service for Monitoring Investment Performances	Advisory Service for Plan Amendments	Advisory Service for Investment Option Proposals	Advisory Service for Recommending Plan Policies	Advisory Service for Monitoring Investment Performances	Advisory Service for Plan Amendments	Advisory Service for Investment Option Proposals	Advisory Service for Recommending Plan Policies	Advisory Service for Monitoring Investment Performances	Advisory Service for Plan Amendments	Advisory Service for Investment Option Proposals	Advisory Service for Monitoring Investment Performances
CA Savings Plus Prg																								
Georgia		X						X		X	X	X	X					X		X				
Idaho (PERSI)	X	X	X	X	X	X		X		X	X	X	X	X	X	X	X	X					X	X
Kentucky	X	X					X	X				X			X		X	X		X	X	X	X	X
Maryland	X	X			X			X						X	X	X	X					X	X	X
NC	X	X		X			X				X									X				X
SC	X	X												X	X	X	X							
St of MI	X	X								X	X	X	X	X	X	X	X							
TN	X	X	X	X	X	X				X	X	X	X											
Texas	X	X		X		X	X	X		X	X	X	X										X	X
Utah							X	X	X	X	X	X	X	X	X	X	X	X	X	X			X	
	8	9	2	4	3	3	4	6	1	6	7	7	6	5	6	5	6	4	1	4	1	2	5	5

Administrative Services Provided by State 401(k) Plans

Comparability Notes:

Administrative services for Kentucky's 401(k) Plan are exactly the same as those outlined for the 457 Plan. Looking specifically at the administrative services for the other responding state 401(k) Plans, 9 of the 11 reporting state 401(k) Plans use a third party administrator to perform the record keeping services, including Kentucky. One exception was Utah, which performs record keeping on an in-house basis. The other state California did not respond.

Eight states use a third party administrator to provide all or a portion of the communications and enrollment services. Four states, including Kentucky, use both a third party administrator and in-house staff to provide the communications and enrollment services. Two states, Georgia and Utah, use in-house staff exclusively to perform these services.

Advisory services are fairly well divided between consultants, outside counsel and deferred compensation review committees. Kentucky uses all 3 of these approaches.

Observation: From the analysis completed, Kentucky compares quite favorably on both a national and border state basis in terms of the administrative services provided and who performs these services for the 401(k) Plan.

Communication & Education Methods used by State 457 & 401(k) Plans

Communication/Education Methods - State 457 Plans

	Payroll Stuffers	Enrollment Booklet	Enrollment Video	Targeted Postcards	Posters	Newsletter	Retirement Booklets	Investment Education Material	Group Enrollment Seminars	Group Investment Seminars	Group Retirement Planning Seminars	Person-to-person Pre-enrollment Counseling	Person-to-person Retirement Distribution Counseling	Voice-responsive System for Account Inquiry and/or Transaction Instructions	"Blast" E-mails to all Employees or all Participants	Video Conferencing	Webcast	Internet/Website	Benefit Fairs
Alaska	X					X	X	X			X	X	X					X	
Arizona	X	X	X	X	X	X	X	X	X	X	X	X	X	X				X	X
CA Savings Plus Prg	X	X				X			X	X				X				X	X
CalPERS	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X	X
Colorado	X	X		X	X	X			X	X	X	X	X	X					
Delaware	X	X		X	X	X	X	X	X	X	X	X	X	X				X	X
Florida		X		X	X	X	X	X	X	X	X	X	X	X				X	X
Georgia		X				X					X			X				X	X
Idaho	X	X		X		X		X	X	X	X	X	X	X	X			X	X
Illinois		X		X	X	X		X	X	X	X			X				X	X
Indiana	X	X			X	X			X		X	X	X	X				X	X
Kansas		X		X	X	X	X	X	X	X	X	X	X	X	X		X	X	X
Kentucky	X	X		X	X	X	X	X	X	X	X	X	X	X	X			X	X
Maine		X							X					X					
MD Teachers & St Emps		X	X			X		X	X	X	X	X	X	X	X			X	X
Michigan		X		X	X	X	X	X	X	X	X	X	X	X	X			X	X
Montana	X	X		X		X	X		X	X	X	X	X	X					X
Nevada		X				X		X	X	X	X	X	X			X		X	X
New Jersey	X	X				X	X	X	X		X			X				X	X
NY St	X	X		X	X	X	X	X	X	X	X	X	X	X				X	X
Ohio	X	X			X	X		X	X	X	X	X	X	X	X			X	X
Oklahoma		X			X	X		X		X	X			X				X	
Oregon	X	X	X	X	X	X	X	X	X	X	X			X				X	X
PA		X			X	X		X	X		X	X	X	X				X	X
SC		X		X		X		X	X	X	X	X	X	X				X	X
South Dakota	X	X				X					X			X				X	X
Tennessee	X	X			X	X	X		X	X	X	X	X	X	X			X	X
Texas		X		X	X	X	X	X	X	X	X	X		X			X	X	X
Utah	X	X			X	X	X	X	X	X	X	X	X	X				X	X
Vermont	X	X			X	X		X	X	X	X	X	X	X				X	X
Virginia		X			X	X	X	X	X	X	X	X	X	X				X	X
Washington	X	X	X	X	X	X	X	X	X		X	X	X	X				X	X
West Virginia	X	X			X	X		X	X			X		X				X	X
Wisconsin	X	X		X	X	X	X	X	X	X	X			X			X	X	X
Wyoming	X	X		X	X	X	X	X	X	X	X	X	X	X	X				X
	22	34	5	18	24	34	19	27	31	26	32	26	24	33	9	2	3	31	31

Communication/Education Methods Provided by State 457 Plans

Comparability Notes:

Of the 19 communication/education methods referenced in the survey, Kentucky utilizes 16 or 84% of these methods. Only California uses more of the communication/education methods identified than Kentucky. The average number of methods utilized by the responding state 457 Plans was 12. The average number of methods used by the responding border states was also 12.

The most frequently used communication/education methods by the 35 state 457 Plan respondents are as follows:

Method	Number Using
Enrollment Booklet	34
Newsletter	34
Voice Response System	33
Group Retirement Planning Seminars	32
Group Enrollment Seminars	31
Internet/Website	31
Benefits Fair	31

Kentucky's 457 Plan utilizes each of these most frequently used methods.

One communication/education method currently unavailable through the Kentucky program is an enrollment video. Kentucky is in the process of developing an enrollment video to be used by all participating employers throughout the Commonwealth. Of the 35 reporting state plans only 5 currently have an enrollment video in use. Therefore, when Kentucky completes the development of its enrollment video it will be solidly among the leaders with this communication/education method in place.

Another communication/education method not currently in use in Kentucky is video conferencing. There are only 2 state plans currently utilizing video conferencing as a communication/education method. Kentucky has no immediate plans to introduce this method.

Webcast usage is not currently available in Kentucky. This communication/education method is only in use by 3 state plans responding to the NAGDCA survey. Kentucky has no immediate plans to introduce this method.

Observation: Kentucky is most competitive on both a national and border states basis when comparing the communications/education methods described in the NAGDCA survey.

Communication/Education Methods - 401(k) Plans

	Payroll Stuffers	Enrollment Booklet	Enrollment Video	Targeted Postcards	Posters	Newsletter	Retirement Booklets	Investment Education Material	Group Enrollment Seminars	Group Investment Seminars	Group Retirement Planning Seminars	Person-to-person Pre-enrollment Counseling	Person-to-person Retirement Distribution Counseling	Voice-responsive System for Account Inquiry and/or Transaction Instructions	"Blast" E-mails to all Employees or all Participants	Video Conferencing	Webcast	Internet/Website
CA Savings Plus Prg																		
Georgia		X				X					X			X				X
Idaho (PERSI)		X				X	X	X		X	X			X				X
Kentucky	X	X		X	X	X	X	X	X	X	X	X	X	X	X			X
Maryland		X				X		X	X	X	X	X	X	X	X			X
North Carolina	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
South Carolina		X		X		X		X	X	X	X	X	X	X				
St of Michigan		X		X	X	X	X	X	X	X	X	X	X	X	X			X
Tennessee	X	X			X			X	X	X	X	X	X	X	X			X
Texas		X		X	X	X	X	X	X	X	X	X		X			X	X
Utah	X	X			X	X	X	X	X	X	X	X	X	X				X
	4	10	1	5	6	9	6	9	8	9	10	8	7	10	5	1	2	9

Communication/Education Methods Provided by State 401(k) Plans

Comparability Notes:

The communication/education methods referenced in the 401(k) Plans NAGDCA survey are essentially the same as those indicated for 457 Plans. Of the 11 reporting states only North Carolina utilizes more of the communication/education methods outlined in the survey than Kentucky. North Carolina uses all 18 of the methods identified by the survey. Kentucky currently utilized 15 of the 18 methods. The average number of methods used by the reporting state plans is 11. The most frequently used methods are as follows:

Method	# Using
Enrollment Booklet	10
Group Retirement Planning Seminars	10
Voice Response System	10

The Kentucky 401(k) Plan uses all 3 of these methods.

From a border state perspective, only Tennessee offers a 401(k) Plan. Kentucky actually utilizes more communication/education methods than Tennessee.

Observation: Based upon our analysis of the survey results, the Kentucky 401(k) Plan is very competitive on both a national and border state basis when communication/ education methods are reviewed.

Website & Internet Services used by State 457 & 401(k) Plans

Website/Internet Services - State 457 Plans

	Website Features																	Design & Maintenance		
All 35 have a Website	Information specific to your deferred compensation program (e.g., brochures, general enrollment information)	Forms	Investment education material	Secure access to account information (account balance, current deferral information, etc.)	Transaction capabilities (transfers/exchanges, changes to deferral allocation, etc.)	Retirement Calculator	Wealth Accumulation Calculator	Advice Link	Asset Allocations	Loan Modeling	Fund Performance forms	On-line plan enrollment submission capability	On-line distribution request submissions	On-line personalized financial advice available with no additional fee	On-line personalized financial advice subscription available for a fee	Account statements available on-line (print on demand)	Spanish/Non-English Communication Materials	Internal	External	Combination
Alaska	X	X	X	X	X	X			X		X									X
Arizona	X	X	X	X	X	X	X	X	X		X	X				X	X		X	
CA Savings Plus Prg	X	X	X	X	X	X	X		X	X	X					X		X		
CalPERS	X	X	X	X	X	X	X			X	X	X				X	X			X
Colorado	X	X	X	X	X	X		X	X					X	X	X			X	
Delaware	X	X	X	X	X	X			X		X	X				X		X		
Florida	X	X	X	X	X	X	X	X	X			X		X			X		X	
Georgia	X	X		X	X						X		X			X				X
Idaho	X		X		X	X	X	X	X		X					X	X		X	
Illinois	X	X	X	X	X	X	X	X	X		X					X				X
Indiana	X	X	X	X	X	X	X	X	X		X				X	X				X
Kansas	X		X	X	X	X	X	X	X		X			X	X	X				X
Kentucky	X	X	X	X	X	X	X		X	X	X		X						X	
Maine	X	X	X	X	X	X													X	
MD Teachers & St Emp	X	X	X	X	X	X	X		X		X	X				X				X
Michigan	X	X	X	X	X	X		X	X	X	X	X	X	X	X	X			X	
Montana	X			X	X				X							X			X	
Nevada	X		X	X	X			X	X		X			X				X		
New Jersey	X	X	X								X							X		
NY St	X	X	X	X	X	X	X		X	X	X					X			X	
Ohio	X	X	X	X	X	X	X		X		X	X							X	
Oklahoma	X	X	X	X	X	X	X		X		X								X	
Oregon	X	X		X	X	X			X		X					X				X
PA	X	X	X	X	X	X	X	X	X		X			X	X	X			X	
SC	X	X	X	X	X	X			X	X						X			X	
South Dakota	X		X	X															X	
Tennessee	X	X	X	X	X	X	X		X		X					X		X		
Texas	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X				X
Utah	X	X	X	X	X	X	X	X		X	X							X		
Vermont	X		X	X	X	X			X		X					X			X	
Virginia	X	X	X	X	X	X			X		X					X	X		X	
Washington	X	X	X	X	X	X	X				X					X			X	
West Virginia	X	X		X	X	X	X	X			X			X		X				X
Wisconsin	X	X	X	X	X	X	X				X	X				X				X
Wyoming	X	X	X	X	X		X				X									X
	35	29	31	33	33	29	21	13	25	8	29	9	4	8	6	24	5	6	17	12

Website/Internet Services Provided by State 457 Plans

Comparability Notes:

All of the reporting states (including Kentucky) provide an interactive website for participants use.

The website/internet services most frequently included by the 35 responding state 457 Plans are as follows:

Service	Number Using
Plan Specific Information	35
Transaction Capabilities	33
Secure Access to Account Information	33
Investment/Education Information	31

Kentucky's 457 Plan provides each of these website/internet services.

Kentucky provides 12 of the 20 identified website features in the NAGDCA survey. The majority of features not included on the Kentucky website are primarily on-line services or advice related. Only a few state plans actually offer on-line services and advice to participants. Kentucky is considering the addition of investment advice now that the Pension Protection Act of 2007 has made clear plan sponsors will not be held liable when providing this service to participants. There were 14 state 457 Plan respondents whose plans provided more website/internet services than Kentucky. A total of 20 state 457 Plan respondents reported fewer services than Kentucky. Two of the 6 reporting border states (Indiana and Illinois) provide more of the identified website/internet services than Kentucky.

Observation: Kentucky's website, provided through its record keeper, Nationwide Retirement Solutions, Inc., compares favorably on both a national and bordering states basis with the other respondents. However, the Kentucky website/internet services provided are not as competitive as it could be. There is room for improvement and the Authority is working with NRS to improve the existing website functionality.

Webstie/Internet Services - 401(k) Plans

	Website	Website Features																		Design & Maintenance		
	Yes	Information specific to your deferred compensation program (e.g., brochures, general enrollment information)	Forms	Investment education material	Secure access to account information (account balance, current deferral information, etc.)	Transaction capabilities (transfers/exchanges, changes to deferral allocation, etc.)	Retirement Calculator	Wealth Accumulation Calculator	Advice Link	Asset Allocations	Loan Modeling	Fund Performance Forms	On-line plan enrollment submission capability	On-line distribution request submissions	On-line personalized financial advice available with no additional fee	On-line personalized financial advice subscription available for a fee	Account statements available on-line (print on demand)	Spanish/Non-English Communication Materials	Other	Internal	External	Combination
CA Savings Plus Prg																						
Georgia	Yes	X	X		X	X						X		X			X					X
Idaho (PERSI)	Yes	X	X	X	X	X	X	X		X	X	X		X			X		X		X	
Kentucky	Yes	X	X	X	X	X	X	X		X	X	X		X							X	
Maryland	Yes	X	X	X	X	X	X	X		X		X	X				X					X
North Carolina	Yes						X															
South Carolina	Yes	X	X	X	X	X	X			X	X						X				X	
St. of MI	Yes	X	X	X	X	X	X		X	X	X	X	X	X	X	X	X	X			X	
Tennessee	Yes	X	X	X	X	X	X			X		X					X			X		
Texas	Yes	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X					X
Utah	Yes	X	X	X	X	X	X	X			X	X							X	X		
	10	9	9	8	9	9	9	5	2	7	6	8	3	5	2	2	7	1	2	2	4	3

Website/Internet Services Provided by State 401(k) Plans

Comparability Notes:

The NAGDCA survey identified 21 different website/internet services being provided by the 11 responding state 401(k) Plans. Ten of the 11 state 401(k) Plan respondents have a website.

The most common services provided by the state 401(k) Plan respondents are as follows:

Service	# Providing
Specific Plan Information	9
Forms	9
Secure Access to Account Information	9
Transaction Capabilities	9
Retirement Calculator	9

Kentucky's 401(k) Plan provides each of these services.

The Kentucky 401(k) Plan's website provides 11 of the 21 different services identified. The most services provided by any one state respondent was 17. Four of the responding states offered more services than Kentucky.

Observation: Kentucky compares favorably with the 401(k) Plan state respondents on a national basis; however, Kentucky has an opportunity to improve its website and is working with NRS to make enhancements. On a border state basis only Tennessee has a 401(k) Plan. Kentucky compares quite favorably with Tennessee's website.

Conclusion

Conclusion:

Overall the Kentucky program compares quite favorably on both a national and border state basis with the other state programs that participated in the NAGDCA survey.

Facts we have gleaned from the NAGDCA survey include:

1) Kentucky's program excels in the areas of plan design and customer service. Our one-stop-shop concept has set the standard for all other state plans to achieve. Other state programs now have the Kentucky concept under consideration. Kentucky's level of personal service to participants is unsurpassed by any other state program.

2) Kentucky is able to offer participants a high quality and well diversified program in a most cost effective manner.

3) We believe the design of our program gives Kentucky a competitive advantage over <u>all</u> other state plans. No other state program offers a 457 Plan, 401(k) Plan, Roth 401(k) option and Deemed IRAs (both Traditional and Roth).

4) One area where improvements are being considered is the website.

5) Kentucky is now looked upon as one of the nation's premier governmental defined contribution programs. Even state programs which are substantially larger than Kentucky's have begun to pattern their deferred compensation programs after the Authority.